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ANNUAL REPORT



AND SUBSIDIARY COMPANIES

for the fiscal year ended
DECEMBER 31, 1971

COMPANIES AND THEIR PRODUCTS

SILKNIT LIMITED

Hespeler, Ontario

Circular knitted fabrics.

SUBSIDIARIES AND DIVISIONS

DOMINION WOOLLENS & WORSTEDS

Hespeler, Ontario

Woven fabrics, industrial fabrics and knitted pile fabrics.

HEPCO MILLS LIMITED

Toronto, Ontario

Circular knitted fabrics and commission knitting.

MOLYCLAIRE LIMITED

Montreal, Quebec

Lingerie, loungewear and sleepwear.

COMFY HOME FURNISHINGS LIMITED

Toronto, Ontario

Slipcovers, throws, bedspreads, drapes and ornamental pillows.

ASSOCIATED COMPANIES—(50% owned)

LOVABLE BRASSIERE COMPANY OF CANADA LIMITED

Subsidiaries—

KOPS BROTHERS LIMITED

FLEXEES (CANADA) LIMITED

FAIR-FORM GARMENTS CO. LIMITED

Toronto, Ontario

Foundation garments.

FRED TARDIF-MOLYCLAIRE S.A.

Barcelona, Spain

Sportswear and loungewear.



TORONTO 2B, CANADA

April 12, 1972.

To the Shareholders of

SILKNIT LIMITED:

The Board of Directors of your Company submits herewith the Consolidated Financial Statements of Silknit Limited and subsidiary companies for the year ended December 31, 1971 together with the report of the auditors thereon.

Combined net sales reached a record high of \$16,028,915 in 1971, an increase of 21% over the 1970 figure of \$13,235,259. Net earnings after income taxes, but excluding an extraordinary item, were \$589,266 in 1971 as compared with \$323,015 in 1970, representing \$2.79 and \$1.52 respectively per common share; also in 1971, a gain of \$54,938 was realized on the sale by Silknit of its minority interest in three inactive subsidiary companies of the Lovable Brassiere Company of Canada Limited to that company, representing further earnings of \$0.26 per common share.

Regular quarterly dividends at the rate of 5% per annum were paid in 1971 on the \$40 par value First Preferred Shares. Cash dividends aggregating 80 cents per share were paid on the Common Shares of the Company and a stock dividend in the form of the issue of one 5% non-cumulative second preferred share in respect of each common share was declared on December 15, 1971; the second preferred shares so issued were redeemed at the par value of 25 cents each on December 16, 1971.

Working capital improved during the year by \$54,697 to an amount of \$4,180,860 as shown by the Statement of Source and Application of Funds which forms part of the Financial Statements submitted herewith.

Early in 1972 Mr. C. W. Dumas, who had served as a Director of the Company since 1948, tendered his resignation from that office, which resignation was regretfully accepted by the Board. Mr. W. F. McCormick, who has had many years of experience in the textile industry, was appointed as a Director to fill the vacancy and to hold office until the next Annual Meeting of the Shareholders.

Your Directors wish to record their appreciation of the loyal services rendered throughout the year by the officers and employees of the Company.

ON BEHALF OF THE BOARD,

H. B. EPSTEIN,
President.

PRICE WATERHOUSE & CO.
CHARTERED ACCOUNTANTS

P.O. Box 51
TORONTO-DOMINION CENTRE
TORONTO 111

MARCH 16, 1972

AUDITORS' REPORT

To the Shareholders of

SILKNIT LIMITED:

We have examined the consolidated balance sheet of Silknit Limited and subsidiary companies as at December 31, 1971 and the consolidated statements of earnings, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants



AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended December 31	
	1971	1970
Net sales.....	\$16,028,915	\$13,235,259 ✓
<u>Deduct:</u>		
Cost of merchandise sold and all expenses, except the items shown below.....	14,434,429	12,139,914
Provision for depreciation.....	330,414	296,803
Remuneration of directors and officers (Note 4).....	147,306	143,727
	<u>14,912,149</u>	<u>12,580,444</u>
Earnings before income taxes and extraordinary item.....	1,116,766	654,815
Income taxes:		
Current.....	513,200	327,600
Deferred.....	14,300	4,200
	<u>527,500</u>	<u>331,800</u>
Earnings before extraordinary item.....	589,266	323,015 ✓
Gain on sale of shares of associated companies (Note 1).....	54,938	—
Net earnings for the year.....	<u>\$ 644,204</u>	<u>\$ 323,015</u> ✓
Earnings per common share:		
Before extraordinary item.....	<u>\$ 2.79</u>	<u>\$ 1.52</u> ✓
For the year.....	<u>\$ 3.05</u>	<u>\$ 1.52</u> ✓

SILK

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31 <u>1971</u>	<u>1970</u>
<u>CURRENT ASSETS:</u>		
Accounts receivable	\$ 3,005,178	\$ 2,637,809
Inventories, at the lower of cost and net realizable value:		
Raw materials and supplies	2,706,171	1,988,672
Work in process	1,059,297	946,667
Finished goods	1,542,100	1,461,176
	<hr/>	<hr/>
Prepaid expenses	5,307,568	4,396,515
	48,157	42,414
	<hr/>	<hr/>
	8,360,903	7,076,738
 <u>OTHER ASSETS:</u>		
Investment in shares of associated companies, at cost (Note 1)	49,745	13,586
Cash surrender value of life insurance, less policy loans	18,131	11,772
Sundry	61,531	65,284
	<hr/>	<hr/>
	129,407	90,642
 <u>FIXED ASSETS, at cost:</u>		
Land	90,377	90,377
Buildings	1,248,772	1,197,123
Machinery and equipment	4,766,944	4,181,186
	<hr/>	<hr/>
	6,106,093	5,468,686
Less—Accumulated depreciation	4,008,063	3,706,195
	<hr/>	<hr/>
	2,098,030	1,762,491
 <u>APPROVED ON BEHALF OF THE BOARD:</u>		
M. H. EPSTEIN, <i>Director</i>		
H. B. EPSTEIN, <i>Director</i>		
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	\$10,588,340	\$ 8,929,871
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LIABILITIES

	December 31	
	<u>1971</u>	<u>1970</u>
<u>CURRENT LIABILITIES:</u>		
Bank indebtedness (secured—Note 2).....	\$ 1,799,496	\$ 1,417,408
Note payable—guaranteed by bank (secured—Note 2).....	700,000	300,000
Accounts payable and accruals.....	1,582,111	1,124,844
Income taxes payable.....	98,436	108,323
	<hr/> 4,180,043	<hr/> 2,950,575
<u>DEFERRED INCOME TAXES</u>	157,900	143,600
<u>SHAREHOLDERS' EQUITY:</u>		
Five per cent cumulative redeemable first preferred shares of the par value of \$40 each:		
Authorized—15,370 shares		
Issued—5,370 shares		
Outstanding—1,342 shares (Note 3).....	53,680	55,400
Five per cent non-cumulative redeemable second preferred shares of the par value of 25¢ each:		
Authorized—3,790,000 shares		
Issued and redeemed—210,000 shares (Note 3)		
Common shares without nominal or par value:		
Authorized—600,000 shares		
Issued and outstanding—210,000 shares.....	350,000	350,000
Contributed surplus.....	481,719	481,607
Retained earnings (Note 3).....	5,364,998	4,948,689
	<hr/> 6,250,397	<hr/> 5,835,696
	<hr/> <u>\$10,588,340</u>	<hr/> <u>\$ 8,929,871</u>



AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1971

1. INVESTMENT IN SHARES OF ASSOCIATED COMPANIES:

On May 31, 1971 the Company sold its investment in shares of three inactive subsidiaries of Lovable Brassiere Company of Canada Limited to that company. A gain of \$54,938, representing the excess of the underlying book value of the shares over their cost, was realized on their sale.

The Company's share of the net earnings or losses of Lovable Brassiere Company of Canada Limited and subsidiary companies (50% owned) for 1971 and 1970 was—

	1971	1970
Share of net earnings (losses).....	\$10,277	\$(4,938)

Earnings of these associated companies are reflected in these accounts only to the extent of dividends received (none in 1971 or 1970). The book value of net assets attributable to the investment in shares of these companies at December 31, 1971 amounted to \$691,323.

During the year a subsidiary company, Molyclaire Limited, invested \$44,745 in a company which commenced operations in the latter part of 1971. Molyclaire's portion of losses incurred by this company to December 31, 1971 (which were not material) have not been reflected in these financial statements.

2. BANK INDEBTEDNESS:

Bank loans—\$1,725,000 and note payable guaranteed by bank—\$700,000 are secured by general assignments of certain inventories and accounts receivable.

3. PREFERRED SHARES REDEEMED:

During the year 43 five per cent cumulative redeemable first preferred shares were purchased and redeemed by the Company. As a result of this and prior years' redemptions of preferred shares \$161,120 of retained earnings is designated as capital surplus in compliance with Section 62 of the Canada Corporations Act.

On November 15, 1971 the Company declared a stock dividend of 25 cents per share to be satisfied by the issue on December 15, 1971, of one fully paid 5% non-cumulative redeemable second preferred share in respect of each common share held by shareholders. The 5% non-cumulative redeemable second preferred shares so issued were redeemed on December 16, 1971 at par value.

4. REMUNERATION OF DIRECTORS AND OFFICERS:


Remuneration of directors and officers comprises:

	<u>1971</u>	<u>1970</u>
Two directors, one of whom is an officer, for services as directors. The other seven directors received no remuneration as directors.....	\$ 1,200	\$ 1,200
Four officers, three of whom are directors.....	109,106	108,027
One past officer who is a director.....	6,000	6,000
Two directors, employees of a subsidiary, paid by the subsidiary.....	31,000	28,500
	<u>\$147,306</u>	<u>\$143,727</u>

SILKNIT LIMITED

OFFICERS AND DIRECTORS

M. H. EPSTEIN.....	<i>Chairman of the Board and Director</i>
H. B. EPSTEIN.....	<i>President and Director</i>
H. T. BURGESS.....	<i>Secretary and Director</i>
W. CROMPTON, C.A.....	<i>Treasurer and Director</i>
E. J. LERANBAUM.....	<i>Director</i>
E. G. McMILLAN, Q.C.....	<i>Director</i>
G. KLAGER.....	<i>Director</i>
W. F. McCORMICK.....	<i>Director</i>
MRS. ANNE EPSTEIN.....	<i>Director</i>
MISS C. SINCLAIR.....	<i>Assistant Secretary</i>



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INTERIM REPORT



AND SUBSIDIARY COMPANIES

for the six months ending

JUNE 30, 1971



TORONTO 2B, CANADA

August 25, 1971.

To the Shareholders of

SILKNIT LIMITED:

The Board of Directors of your Company submits below certain information with respect to the combined operations of the Company and its subsidiary Companies and of changes in the consolidated financial position for the six month period from January 1, 1971 to June 30, 1971.

Results of operations for the six month period ending June 30, 1971, compared with those for the first six months of 1970, were as follows—

	Six months ending June 30	
	1971	1970
Net Sales	\$7,605,397	\$6,334,136
Earnings before income taxes and extraordinary item ..	\$ 509,120	\$ 209,115
Income Taxes —		
Current	\$ 262,000	\$ 122,000
Deferred	(2,800)	(17,500)
	\$ 259,200	\$ 104,500
Net earnings before extraordinary item	\$ 249,920	\$ 104,615
Extraordinary item —		
Gain on sale of investments to an associated company	54,937	
Net earnings for the period	\$ 304,857	\$ 104,615
Earnings per common share —		
Operations	\$ 1.18	\$ 0.49
Extraordinary item26	—
	\$ 1.44	\$ 0.49

Sales increased to \$7,605,397 from \$6,334,136, an increase of 20%, while net profit after taxes increased by 140% to \$249,920 compared to \$104,615. These figures do not include an extraordinary gain of \$54,937 which arose as a result of the sale to an associated company of the minority interest held by Silknit Limited in other subsidiaries of that associate.

Your Company's share of net earnings of its associated companies (50% owned) for the six months ending June 30, 1971, amounts to \$14,732 as compared with a loss of \$5,964 for the first six months of 1970.



TORONTO 2B, CANADA

EXCERPT FROM PRESIDENT'S ADDRESS
TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS
April 29th, 1971.

"Operations improved substantially in the 4th quarter of 1970, and I am very pleased to report that this increased level of activity has continued throughout the 1st quarter of 1971. Net sales for the 3 months ending March 31, 1971 were \$3,797,503 as compared with \$3,209,478 for the first quarter of the previous year, an increase of 18.3%; earnings before income taxes amounted to \$260,759 against \$82,069 for the 1970 quarter; after provision for income taxes of \$131,600 in 1971 and \$40,200 in 1970, net earnings for the first quarter of 1971 were \$129,159 as compared with \$41,869 for the like period of 1970, equivalent to 61 cents and 19 cents respectively per common share. These earnings for the first quarter of 1971 compare quite favourably with the first quarter of 1969 when earnings were 64 cents per share. These figures are unaudited and could be affected to some degree by year-end adjustments.

The momentum generated in the past few months appears to be continuing for the present, and all indications are that the results of operations for the second quarter will show a satisfactory improvement over those for the corresponding 1970 period. This general improvement in your Company's operations is due to the current wider market acceptance of knitted fabrics, and a general across the board increase in demand for all products produced by your Company and its subsidiaries. However, of major concern for the balance of the year is the continuing high rate of unemployment coupled with a rising cost of living, increased cost of operations and a continuing high volume of imports of almost all types of textile products into Canada."

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SUMMARY OF CONSOLIDATED OPERATIONS

	<u>3 Months ending March 31</u>	
	<u>1971</u>	<u>1970</u>
Net Sales	\$3,797,503	\$3,209,478
Earnings before income taxes	260,759	82,069
Income taxes	131,600	40,200
Net earnings	<u>\$ 129,159</u>	<u>\$ 41,869</u>
Earnings per common share	\$ 0.61	\$ 0.19

Net current assets, or working capital, increased by \$117,151 during the six months period ending June 30, 1971 to an amount of \$4,243,314 at that date, as shown by the following statement of Source and Application of Funds, with figures for the comparable period last year.

	Six months ending June 30	
	<u>1971</u>	<u>1970</u>
SOURCE OF FUNDS		
Funds provided from operations —		
Net earnings for the period	\$ 304,857	\$ 104,615
Income taxes deferred	(2,800)	(17,500)
Provision for depreciation	161,866	156,272
	<u>\$ 463,923</u>	<u>\$ 243,387</u>
Other (net)	30,540	28,018
	<u>\$ 494,463</u>	<u>\$ 271,405</u>
APPLICATION OF FUNDS:		
Dividends — Common	\$ 84,000	\$ 84,000
Preferred	1,375	1,393
Cost of preferred shares purchased		
for cancellation	374	561
Additions to fixed assets (net)	291,563	179,199
	<u>\$ 377,312</u>	<u>\$ 265,153</u>
Resulting in an increase in working capital of	\$ 117,151	\$ 6,252
Working capital at beginning of year	4,126,163	3,881,370
Working capital, June 30	<u>\$4,243,314</u>	<u>\$3,887,622</u>

The financial statements provided in the text of this interim report have not been examined by the Company's auditors and are subject to year-end adjustments.

ON BEHALF OF THE BOARD,

H. B. EPSTEIN,
President.

